



**Fiscal Services Division**

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December 9, 2005

**AGENDA ITEM 8**

**TO: MEMBERS OF THE FINANCE COMMITTEE**

**I. SUBJECT:** Fiscal Year (FY) 2005-06 Mid-Year Budget  
Revisions (First Reading)

**II. PROGRAM:** Administration

**III. RECOMMENDATION:**

- (1) Approve the proposed FY 2005-06 mid-year administrative budget of \$250,316,568 and 1,823 positions.
- (2) Approve an increase of \$898,358 for the Enterprise Projects budget to \$11,872,181.
- (3) Approve an increase to the CalPERS Headquarters Building Account of \$6,154,577 to \$34,846,886.
- (4) Approve the FY 2005-06 mid-year budget transmittal letter and the submittal of the letter and this item to the Joint Legislative Budget Committee and the Fiscal Committees of the Legislature, the State Controller, and the Department of Finance, in accordance with the FY 2005-06 Budget Act, and the Legislative Analyst's Office and the State and Consumer Services Agency.

#### **IV. ANALYSIS:**

The mid-year revisions submitted under this item were evaluated based on the following criteria:

- Staff only recommended approval for fully justified proposals demonstrating a need that should not be deferred until the FY 2006-07 budget process.
- Staff recommended deferring consideration of any proposals if it appeared that a division would be able to fund its need within its existing resources, or if less urgent workload could be postponed.
- Staff recommended redirecting existing system-wide savings to fund fully justified needs that could not be funded within a division's existing resources.

These criteria support staff's efforts to ensure the most efficient and cost effective allocation of CalPERS' resources.

#### **ADMINISTRATIVE BUDGET**

The proposed mid-year FY 2005-06 administrative budget is \$250,316,568 and 1,823 positions. This reflects a zero dollar growth in the budget and an increase of 12 positions. The sections below describe the components used to build the proposed mid-year budget.

#### **Technical Adjustments**

The proposed mid-year budget includes \$2,059,777 in technical adjustments:

- \$1,317,409 for personal services adjustments.
- \$742,368 for the increased FY 2005-06 statewide pro rata assessment.

#### **Budget Requests**

Staff recommends approving \$1,993,850 and 12 positions to fund fully justified budget requests. A summary of recommended requests is provided below:

- \$600,000 to upgrade hardware and software for the automated systems used to review, process, track and determine eligibility for disability retirements. These automation changes will improve the work flow and enable staff to better focus on finalizing determinations.
- \$560,000 for the CalPERS Customer Education Solution. Upon implementation, this effort will provide members the option to schedule educational seminars on-line. An education content library will also be established and will result in more timely updates to customer education materials.

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- Two positions to increase management oversight in Fiscal Services. The ongoing, full-year cost of these positions is \$235,787.
- \$125,287 and 3 positions to address increased workload in the Investment Accounting Section of Fiscal Services. The ongoing, full-year cost of these positions is \$250,573.
- \$127,232 and 2 positions to provide clinical expertise and independent oversight for the Self Funded Health Plans. The ongoing full-year cost of these positions is \$242,463.
- \$37,116 and 1 position to address backlog increases in the Estimates Unit within Member Services. The ongoing full-year cost is \$89,078.
- Three positions to increase the audit frequency of high risk agencies. The ongoing, full-year cost of these positions beginning in FY 2006-07 is \$280,006.
- \$44,215 and 1 position to address internal communications workload increases in the Public Affairs Office. The ongoing full-year cost is \$88,430.
- \$500,000 to initiate change management activities related to the Pension System Resumption project.

The following chart summarizes the budget recommendations. Staff recommends funding these recommendations by redirecting existing resources, as described in the next section.

**FY 2005-06 Mid-Year Requests**

Mid-Year Requests		Recommendations		
DIVISION	FBR TITLE/SUBJECT	05/06 ONE-TIME FUNDS	06/07 ON-GOING FUNDS	POSITIONS
Benefit Services	Disability Automation Enhancements	600,000	-	-
Customer Contact Center	Customer Education Solution	560,000	-	-
Fiscal Services	Increased Management Oversight	-	235,787	2.0
Fiscal Services	Investment Accounting Staff Increase	125,287	250,573	3.0
Health Benefits Branch	Medical Consulting Staff	127,232	242,463	2.0
Member Services Division	Estimates Unit Staff Increase	37,116	89,078	1.0
Office of Audit Services	Staff Increase for Audit Plan	-	280,006	3.0
Public Affairs Office	Internal Communications Staff Increase	44,215	88,430	1.0
Strategic Management Development	Change Management Activities	500,000	-	-
<b>Total</b>		<b>\$1,993,850</b>	<b>\$1,186,337</b>	<b>12.0</b>

### **Available Funding Sources**

Staff has identified one-time division savings of \$4,053,627 in the current year and recommends using these one-time funds to cover the recommended budget requests and technical adjustments described earlier.

### **Review of Proposed Budget**

The recommended budget revisions would result in the continuation of a \$250.3 million budget. This budget uses existing resources to fund recommended technical adjustments and budget requests. The following chart provides a re-cap of the proposed mid-year budget.

Proposed Mid-Year FY 2005-06 Budget	
Current Budget	\$250,316,568
Technical Adjustments	\$2,059,777
Budget Requests	\$1,993,850
Available Funds	-\$4,053,627
<i>Revised FY 2005-06 Budget</i>	\$250,316,568

### **Impact to the FY 2006-07 and Ongoing Baseline Budget**

The proposed mid-year recommendations would increase the ongoing baseline budget beginning in FY 2006-07. The full-year, ongoing costs of the recommended budget requests are \$1,186,337.

### **Cost Allocation Update**

Staff uses a cost allocation methodology approved by the Board in FY 1999-00 to equitably distribute administrative program costs across CalPERS funds. The methodology classifies CalPERS divisions as *program* or *administrative*. Program divisions' expenses are charged directly to funds they support, while administrative divisions' expenses are allocated to each fund based on the level of support they provide to program divisions. Fiscal Services annually surveys administrative divisions to determine their level of support over the past fiscal year. The survey results are then applied to the current year's budget and expenses to determine each fund's share of administrative costs. Fiscal Services completes its preliminary cost allocation during the mid-year process to identify changes to align the budget authority for each fund with the cost allocation results. This preliminary cost allocation run, which assumes CalPERS spends 100 percent of its budget,

is anticipated to be completed in December 2005. If the results indicate adjustments are necessary to the current budgeted appropriation levels, the second reading of the proposed mid-year budget will reflect those changes. Staff also performs a final cost allocation run as part of the year-end closing process. The results of the year-end cost allocation process will be reported to the Finance Committee as part of the FY 2005-06 Year End Budget and Expenditure report.

### **ENTERPRISE PROJECTS BUDGET**

#### **Current Budget**

The current budget for the enterprise projects is \$10,973,823.

- \$3,973,823 for the Pension System Replacement (PSR) project.
- \$7,000,000 for the Enterprise Billing, Accounts Receivable and Collections (EMBARC) project.

#### **Proposed Budget**

Both projects have requested increases to their budgets.

- The PSR project is requesting an additional \$680,000 to extend contracts through the end of the procurement phase. This will ensure an adequate level of support and minimize risk to the project.
- The proposed budget for PSR will be \$4,653,823.
- The EMBARC project is requesting an additional \$218,358 to support the development of customized PeopleSoft modules for long term notes.
- The proposed budget for EMBARC will be \$7,218,358.

### **CALPERS HEADQUARTERS BUILDING ACCOUNT BUDGET**

#### **Current Budget**

The CalPERS Headquarters Building Account (CHBA) budget is \$28,692,309 and funds the routine operational activities of the Lincoln Plaza complex as well as any necessary improvements to the buildings.

#### **Proposed Budget**

The proposed mid-year budget for the CHBA is \$34,846,886. This increase of \$6,154,577 (21 percent) is to equip a new emergency operations center. With the impending move to the new buildings, CalPERS will no longer lease space at the Gateway Oaks location. This location has served as the emergency operations center for CalPERS in the event of a disaster. In June

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2005, the Board instructed CalPERS staff to purchase a new building to function as a disaster recovery facility. This purchase closed escrow in October 2005 and work needs to begin to make the building suitable for this purpose. Because of the timing on the approval of the purchase of the new emergency operations center, these items could not be anticipated during the FY 2005-06 budget development process.

**V. STRATEGIC PLAN:**

This item is not a specific product of the Strategic Plan. It is brought to the Finance Committee and the full Board of Administration to satisfy the following requirements: (1) obtain approval of FY 2005-06 Mid-Year budget revisions; and (2) fulfill Budget Act control language requirements.

**VI. RESULTS/COSTS:**

The CalPERS FY 2005-06 administrative budget of \$250,316,568 will not change. The enterprise projects budget will increase by \$898,358 or 8 percent, to \$11,872,181. The CHBA budget will increase by \$6,154,577 or 21 percent, to \$34,846,886. The recommendations contained in this agenda item will take effect upon the approval of the second reading by the Board of Administration at its February 2006 meeting.

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Russell G. Fong, Chief  
Fiscal Services Division

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Curtis Howard  
Assistant Executive Officer  
Administrative Services Branch

Attachment